September 12, 2007

WORKING CAPITAL FUND

FY 2007 Third Quarter Report: Summary

I. Relation of Earnings to Expenses

We have completed our third quarter reviews of all business lines and based on our reviews, most businesses should break even by the end of FY 2007, with the exception of telephone and network businesses, which profits are expected to finance the capital upgrades required for these two businesses and A-123, which is experiencing delays caused by the continuing resolution. Earned revenue for the Fund has totaled slightly over $80.4 million for the Third Quarter, on track for an annual level of approximately $106.3 million, as forecast in Table III of the June bill. Business Expense for the same period was $77.3 million resulting in net income of $3.1 million.

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FY 2007 Third Quarter Cumulative Business Results (in Millions)			
TABLE I			
Business Line	**Third Quarter Earnings**	**Third Quarter Business Expenses**	**Third Quarter Net**
Supplies	$2.3	$2.3	$0.0
Mail	$1.5	$1.5	$0.0
Copying	$1.8	$1.5	$0.3
Printing/Graphics	$1.8	$2.0	$(0.2)
Building Occupancy	$51.8	$50.7	$1.1
Telephones	$6.0	$5.3	$0.7
Network	$5.0	$3.8	$1.2
Procurement Services	$0.5	$0.8	$(0.3)
Payroll Processing	$1.9	$1.9	$0.0
CHRIS	$1.6	$1.3	$0.3
Corp Training Services	$0.2	$0.2	$0.0
PMCDP	$0.8	$1.4	$(0.7)
STARS	$3.0	$3.6	$(0.6)
A-123	$2.1	$0.9	$1.2
TOTAL [1]	**$80.4**	**$77.3**	**$3.1**

Each business is expected to achieve a balance between annual 'earnings' (billings to customers pursuant to Board-approved pricing policies) and 'expenses' (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are

1 When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies. Specific differences in excess of $50,000 are as follows:

- The Copy Business experienced net earnings of $290,308, due to savings related to maintenance contracts for the staffed copy center.

- Printing & Graphics experienced net earnings of -$208,098, due to prior year costs not properly accrued.

- The Building Occupancy Business Line experienced net earnings of $1,131,369 due to contracting for construction when costs will be recognized in future periods.

- The Telephone Business Line experienced net earnings of $675,673 as a result of operating efficiencies and prior year adjustments. This adds to funds that could be available to support the infrastructure upgrades once a plan is approved by the Board. There was a large offsetting adjustment for prior year billing and costs that will reduce annual earnings and costs for this business, but will net to zero on the income statement.

- The Network Business Line experienced net earnings of $1,170,841 as a result of operating efficiencies and a prior year adjustment to costs. The business is on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes and one-time cost savings.

- Procurement Services experienced net earnings of -$297,093 due to closing out contracts that generate less revenue. The Closeout segment of the business has experienced cost growth that has not been passed onto customers. These losses are offset by past profits and the business remains solvent. However, the Fund Manager will institute a working group soon to review pricing options for the business.

- The CHRIS Business Line experienced net earnings of $321,550, due to leveraging some new functionality with other funding sources. These savings will finance future operations.

- PMCDP costs are estimated to be in excess of earnings by $682,690, primarily due to the drawdown in balances obligated in the initial FY 2004 year; however, no change in pricing policy is needed.

- STARS experienced net earning of -$594,204, due operating expenses that exceed revenue. The CFO contributed an additional $500 k to the business in the third quarter. The FY 2009 working group increased the budget for this business to $4.5 million, which amount is consistent with its operations.

- Financial Reporting Control Assessment (A-123) experienced net earnings of $1,247,876 due to delays in initial operations caused by the continuing resolution. Spending is accelerating though $1 million per quarter beginning the fourth quarter of FY 2007.

It will be noted that no amounts are included for the External Independent Review business line that was planned to be included in the Fund in FY 2007. Initially, the Fund Manager deferred the transfer of the EIR's into the Fund due to the continuing resolution. More recently, the Office of Management has sought a change in the Department's decisions on EIR financing, such that EIR's would not be included in the Fund in future periods. Rather than create confusion and opportunity for errors by transferring activities first into and then out of the Fund, the Manager has deferred all action until a long-term decision has been made.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings downward by $2.3 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted $0.6 million to offset the reverse billing for August/September usage billed in October/November.

Accruals: In its preliminary evaluation of DOE accruals, the auditors noticed that WCF accruals for the Second Quarter FY 2006 were $20.9 million compared to the Second Quarter of FY 2007 at $7.1 million. We estimate that there should have been an additional $3.3 million accrued for a total of 10.4 million. When we analyzed the accruals posted in 2006 we noticed one-time costs and other anomalies that caused $10.1 million above normal accruals. We reported this to the auditors and had no further requests for information.

For the Third Quarter, accruals equaled $9.3 million and there should have been an additional $2.0 million accrued. We consider the automated accrual process to be adequate. We have improved processes that should result in even better accrual reporting for the fourth quarter and expect to experience the most accurate year-end cost reporting for the life of the Fund. For this reason, we believe that internal controls for costs are adequate.

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II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By June, 2007 we had collected $110.4 million (including prior year funding) compared to the estimated $106.3 million in FY 2007 annual estimates. Some customer accounts remain under funded and we expect to collect approximately $3.5 million more funds.

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FY 2007 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II			
Program Customer	**Annual Estimate**	**Customer Advances[2]**	**Difference**
Secretary of Energy Advisory Board	$ 0	$ 0	$ 0
Board of Contract Appeals	34	28	-6
Bonneville Power Administration	195	195	0
Congressional & Intergovtl Affairs	686	782	96
Office of the Chief Financial Officer	4,352	5,320	968
Counterintelligence	1,633	1,633	0
DOE Representative to the DNFSB	92	113	22
Economic Impact and Diversity	674	659	-15
Energy Efficiency	6,925	7,010	84
Environment, Safety, and Health	3,274	4,895	1,622
Energy Information Administration	7,428	8,134	707
Environmental Management	8,156	8,085	-71
Fossil Energy	3,664	4,218	554
General Counsel	2,963	3,161	198
Hearings and Appeals	786	810	24
Office of Human Resources	2,267	2,341	75

2 Customer advances include prior year customer advances. (see Table III).

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FY 2007 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II (continued)			
Program Customer	**Annual Estimate**	**Customer Advances**	**Difference**
Inspector General	1,651	1,697	46
Chief Information Officer	5,466	7,830	2,364
Intelligence	2,409	2,752	344
Legacy Management	643	778	135
Office of Management and Admin.	9,432	8,925	-507
NNSA	21,327	19,025	-2,302
Nuclear Energy	2,782	3,316	534
Naval Reactors	272	351	79
Electric Trans & Distribution (OE)	1,364	1,450	86
Public Affairs	514	504	-10
Policy and International Affairs	1,824	1,732	-243
CRWM	1,858	2,023	165
Office of the Secretary	1,062	801	-262
Science	5,838	6,326	488
Security	5,795	5,676	-119
WAPA/SWPA/SEPA	972	972	0
Field Offices	3	3	0
Total, Working Capital Fund	**$106,333**	**$ 110,376**	**$4,043**

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III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business lines. As shown in Table III, allocations exceeded obligations by an estimated $44.0 million by the end of the Third Quarter. This amount consists of $18.4 million of unobligated rent payments to GSA, other building activities, phone and network savings, and other amounts that will help finance the first quarter of FY 2008.

The structure of Table III has changed to show the impact of the Board's decision to obligate program funding at the WCF level and to allocate funding to businesses as needed. The Fund Manager is retaining excess funding in a reserve that reflects, among other things, retained earnings accumulated for the telephone system replacement. This will allow administrative efficiencies for program billing, maintain a lower reserve requirement for the Fund as a whole, and improve internal controls by managing business equity centrally.

WORKING CAPITAL FUND

FY 2007 THIRD QUARTER BUSINESS RESULTS (IN MILLIONS)

TABLE III

Business Line	Total Allocations	Third Quarter Obligations	Allocations Remaining to be Obligated
Supplies	$ 3.0	$ 3.0	$ 0.0
Mail	2.5	1.5	1.0
Copying	2.1	1.8	0.3
Printing/Graphics	2.5	1.3	1.2
Building Occupancy	69.6	50.7	18.9
Telephones	7.8	4.6	3.2
Network	4.3	0.2	4.1
Procurement Services	0.5	0.2	0.3
Payroll Processing	2.3	1.2	1.1
CHRIS	2.1	0.8	1.4
Corp Training Services	0.3	0.1	0.2
PMCDP	1.0	0.7	0.3
STARS	4.7	3.7	1.0
A-123	3.3	2.9	0.4
Fund Mgrs Reserve	10.6	0.0	10.6
TOTAL	**$ 116.6**	**$ 72.6**	**$ 44.0**

IV. Changes in Budget Estimates by Business Line and Customer

The $15.7 million increase from the April 2005 to the December 2005 estimate for FY 2007 was the result of adding new businesses to finance External Independent Reviews ($10.5 million), Internal Controls ($5.0 million), and $0.2 million increase in the Supply estimate. During the Second Quarter the phone business projected reductions ($0.9 million) related to credits to customers for FY 2006 charges. External Independent Reviews will not be billed in the WCF (-$10.5 million), there are reductions to A-123 (-$2.1 million) and Printing (-$0.7 million). Otherwise the FY 2007 billing estimates are reasonably aligned with prior estimates.

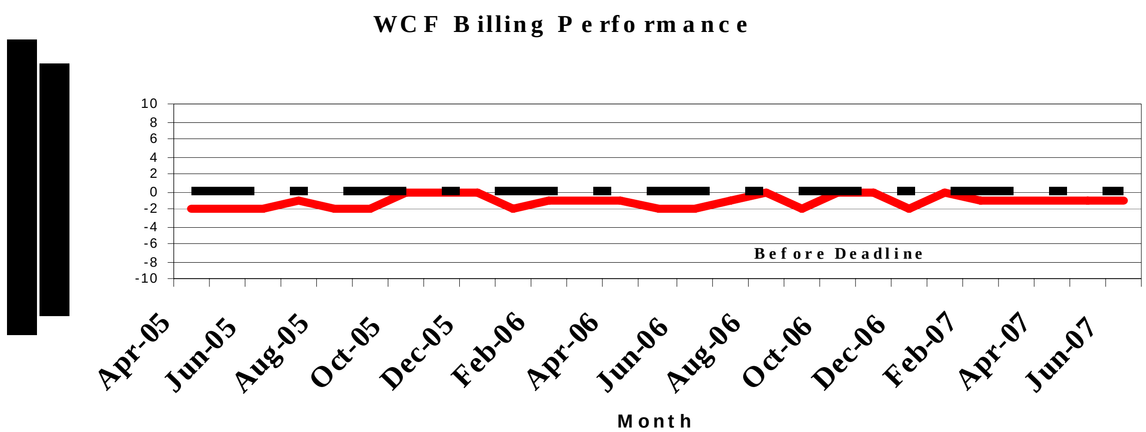
FY 2007 Budget Estimates for WCF Businesses		
Date	Process	FY 2007 Billing Estimate ($Millions)
April 2005	FY 2007 Corporate Review	$104.9
December 2005	FY 2007 Congressional Budget	$120.6
December 2006	FY 2008 Congressional Budget	$120.6
March 2007	Monthly Bill, Table III	$119.6
June 2007	Monthly Bill, Table III	$106.3

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the Third Quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies in any businesses except for the Procurement Management business. Due to change within the types of contracting instruments, the business pricing structure is not producing adequate revenue to cover expenses. The Fund Manager will initiate a working group soon, to prepare recommendations to the WCF Board on how to return the business to break even operations. The business is running on reserves built up on prior profits and remains solvent despite the reported losses.

VI. Financial Management Systems Progress

The WCF billing system continues to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS/STARS by the second working day of the month. This allows the Fund staff to publish a bill to customers before the deadline. A minus two (-2) indicates that billing was forwarded two days before the deadline (deadline decreased by two days during FY 2005). This standard provides customers with costs reported in STARS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.



The Board's decision in November to streamline the billings to customers has already yielded benefits in reducing the number of transactions that need to be recorded. Also, with the full year continuing resolution, most program accounts are fully funded.